CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 10, 2002

H.R. 3995
Housing Affordability for America Act of 2002

As ordered reported by the House Committee on Financial Services on July 9, 2002

SUMMARY

H.R. 3995 would amend and extend certain laws relating to housing opportunity and community development. The bill would seek to increase the availability of affordable housing and expand homeownership opportunities across the country. H.R. 3995 would authorize appropriations to fund both new initiatives and existing housing programs.

CBO estimates that implementing this legislation would cost about $13.5 billion over the next five years, assuming appropriation of the necessary amounts. CBO estimates that enacting the bill would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

H.R. 3995 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3995 is summarized in Table 1. The costs of this legislation would fall within budget functions 370 (mortgage and housing credit), 450 (community and regional development), and 600 (income security).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 3995

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Estimated Authorization Level [a]	17,888	17,826	18,682	19,317	19,917	20,508
Estimated Outlays	20,257	20,529	20,858	20,998	21,143	21,239
Proposed Changes						
Estimated Authorization Level	0	5,609	6,017	2,737	3,019	3,260
Estimated Outlays	0	625	2,018	3,140	3,764	3,941
Proposed Spending Under H.R. 3995						
Estimated Authorization Level	17,888	23,435	24,699	22,054	22,936	23,768
Estimated Outlays	20,257	21,154	22,876	24,138	24,907	25,180

a. The 2002 level is the amount appropriated for that year for the Certificate Fund, HOME Investment Partnership Program, Housing for Special Populations, HOPE VI, Homeless Assistance Grants, Housing Opportunities for Persons with AIDS, Assistance for Self-Help Housing Providers, Rural Housing Rental Assistance Program, and includes offsetting collections generated by the Federal Housing Administration's single-family program and the Government National Mortgage Association's single-family Mortgage-Backed Security program. The 2003-2007 levels are the 2002 amounts adjusted for inflation except for programs with expiring authorizations.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3995 will be enacted near the beginning of fiscal year 2003 and that the amounts necessary to implement the bill will be appropriated for each fiscal year. The bill's costs by provision are shown in Table 2, which is followed by a description of the estimated costs.

TABLE 2. ESTIMATED SPENDING SUBJECT TO APPROPRIATION FOR H.R. 3995

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Title I					
Matching Grants for State and Local Affordable Housing Trust Funds					
Estimated Authorization Level	590	602	379	387	395
Estimated Outlays	12	89	275	391	436
Eligibility of Room Additions for Use for Grandparents and Grandchildren					
Estimated Authorization Level	1,002	1,224	1,436	1,618	1,775
Estimated Outlays	100	423	811	1,260	1,461
Down-Payment Assistance Initiative					
Estimated Authorization Level	200	204	0	0	0
Estimated Outlays	20	120	182	82	0
Homeownership for Municipal Employees					
Estimated Authorization Level	14	15	15	15	16
Estimated Outlays	1	9	15	15	15
Title II					
Loss Mitigation for Hospitals					
Estimated Authorization Level	54	0	0	0	0
Estimated Outlays	30	12	12	0	0
Down-Payment Simplification					
Estimated Authorization Level	6	8	8	9	9
Estimated Outlays	6	8	8	9	9
Reduced Down-Payment Requirements					
Estimated Authorization Level	-3	-10	-14	-17	-20
Estimated Outlays	-3	-10	-14	-17	-20
Title III					
Grants for Repairs to Federally Assisted Housing for the Elderly					
Estimated Authorization Level	200	204	0	0	0
Estimated Outlays	3	50	117	108	74
Service Coordinators for Supportive Housing for Persons with Disabilities					
Estimated Authorization Level	16	16	16	17	17
Estimated Outlays	1	10	16	16	17
Demonstration Program for Elderly Housing for Intergenerational Families					
Estimated Authorization Level	3	3	3	3	0
Estimated Outlays	*	*	1	2	3

Continued

Table 2. Continued.

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Title IV					
Housing Voucher Demonstration					
Estimated Authorization Level	13	14	0	2	8
Estimated Outlays	0	*	2	7	13
Flexibility to Assist Hard-to-House Families					
Estimated Authorization Level	255	266	276	287	297
Estimated Outlays	64	226	235	244	253
PHA Administrative Fees					
Estimated Authorization Level	11	12	13	13	14
Estimated Outlays	9	12	12	13	14
Extension of Project-Based Section 8 Contract Renewals					
Estimated Authorization Level	9	12	13	13	14
Estimated Outlays	5	11	12	13	14
Project-Based Voucher Modifications					
Estimated Authorization Level	0	0	0	0	0
Estimated Outlays	0	*	4	16	34
Expanded Use of Enhanced Vouchers					
Estimated Authorization Level	1	2	3	3	3
Estimated Outlays	1	2	2	3	3
Demonstration Program for Rental Assistance for Grandparent-Headed Families					
Estimated Authorization Level	6	0	3	6	6
Estimated Outlays	0	3	4	4	5
Increased Payment Standard					
Estimated Authorization Level	0	110	114	119	123
Estimated Outlays	0	43	104	108	112

Continued

Table 2. Continued.

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Title V					
Third-Party Public Housing Assessment System					
Estimated Authorization Level	1	0	0	0	0
Estimated Outlays	1	0	0	0	0
Affordable Assisted Living Facilities Demonstration Program					
Estimated Authorization Level	2	4	0	0	0
Estimated Outlays	0	*	*	1	2
HOPE VI Reauthorization					
Estimated Authorization Level	585	597	0	0	0
Estimated Outlays	0	12	88	195	236
HOPE VI Grants for Assisting Affordable Housing Through Main Street Projects					
Estimated Authorization Level	29	30	0	0	0
Estimated Outlays	0	1	4	10	12
Title VI					
Interagency Council on the Homeless					
Estimated Authorization Level	1	1	0	0	0
Estimated Outlays	1	1	*	0	0
Federal Emergency Management Agency Food and Shelter Grant Program					
Estimated Authorization Level	140	143	0	0	0
Estimated Outlays	140	143	0	0	0
Emergency Shelter Grants					
Estimated Authorization Level	155	158	0	0	0
Estimated Outlays	5	23	46	55	59
Supportive Housing Program					
Estimated Authorization Level	785	801	0	0	0
Estimated Outlays	24	118	234	278	297
Section 8 Single-Room Occupancy					
Estimated Authorization Level	16	16	0	0	0
Estimated Outlays	*	2	5	5	6

Continued

Table 2. Continued.

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Shelter Plus Care					
Estimated Authorization Level	180	184	0	0	0
Estimated Outlays	13	69	114	72	30
Housing for Domestic Violence and Sexual Assault Victims					
Estimated Authorization Level	199	203	208	212	216
Estimated Outlays	20	120	202	206	210
Title VII					
Native American Block Grant Reauthorization					
Estimated Authorization Level	661	675	0	0	0
Estimated Outlays	240	380	232	172	146
Title IX					
GNMA Guarantee Fee					
Estimated Authorization Level	0	0	56	58	59
Estimated Outlays	0	0	56	58	59
Reauthorization of SHOP					
Estimated Authorization Level	22	23	0	0	0
Estimated Outlays	*	8	17	13	5
HOPWA Reauthorization					
Estimated Authorization Level	282	288	0	0	0
Estimated Outlays	8	90	165	160	112
Use of CDBG Amounts for Tornado-Safe Shelters					
Estimated Authorization Level	50	50	0	0	0
Estimated Outlays	1	17	37	28	12
Correction of Inequities in the Second Round of Empowerment Zones					
Estimated Authorization Level	167	167	167	167	167
Estimated Outlays	3	57	127	150	167
Assistance for Nonprofit Purchasers Preserving Affordable Housing					
Estimated Authorization Level	15	15	16	16	16
Estimated Outlays	2	9	15	16	16

Continued

Table 2. Continued.

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Demonstration Program for Affordable Housing Database					
Estimated Authorization Level	2	0	0	0	0
Estimated Outlays	1	1	0	0	0
Tenant Protection for Section 515 Properties					
Estimated Authorization Level	41	83	127	157	172
Estimated Outlays	20	60	102	137	158
Removal of Prepayment Restrictions for Section 515 Properties					
Estimated Authorization Level	-102	-102	-102	-65	-27
Estimated Outlays	-102	-102	-102	-65	-27
Total, Changes In Spending Subject to Appropriation					
Estimated Authorization Level	5,609	6,017	2,737	3,019	3,260
Estimated Outlays	625	2,018	3,140	3,764	3,941

NOTES: * = Less than $500,000 per year.

Numbers may not add up to totals because of rounding.

PHA = Public Housing Authority; HOPE VI = Home Ownership and Opportunity for People Everywhere; GNMA = Government National Mortgage Association; SHOP = Self-Help Housing Providers; HOPWA = Housing Opportunities for Persons with AIDS; CDBG = Community Development Block Grant.

Title I: Home Investment Partnerships Program

CBO estimates that implementing title I would cost $5.7 billion over the 2003-2007 period, assuming appropriation of the necessary amounts.

Matching Grants for State and Local Affordable Housing Trust Funds. Section 101 would authorize such sums as may be necessary for grants to state and local trust funds to support the production, preservation, and rehabilitation of housing affordable to extremely low and low-income families. Families occupying units produced with this funding would be required to pay not more than 30 percent of their adjusted monthly income toward rent.

CBO assumes that limiting tenant rent contributions to 30 percent of adjusted income would not provide sufficient revenue to cover operating expenses, including an adequate reserve, for the newly constructed or rehabilitated properties. Therefore, the number of new units that could be produced through this program would be limited by the availability of operating subsidies. As discussed later in this cost estimate, CBO estimates that sections 401 and 411 of this bill would provide enough project-based operating subsidy to support approximately 25,000 new or rehabilitated units (5,000 incremental project-based vouchers in 2003 and 2004 and attaching about 4,000 housing choice vouchers to the new units each year through 2007). Based on data provided by the Department of Housing and Urban Development (HUD), CBO assumes that units currently produced through the HOME program cost an average of $91,000. CBO estimates that implementing this provision would require the appropriation of $2.4 billion over the 2003-2007 period, with outlays of $1.2 billion over that period.

Eligibility of Room Additions for Use for Grandparents and Grandchildren. Section 104 would allow participating local jurisdictions to provide HOME Investment Partnership funds to low-income families to build an additional room or add a cottage to an existing dwelling for an elderly relative if it is necessary to avoid the relative's placement in an institutionalized setting. Based on data published by the Centers for Disease Control and Prevention and the Agency for Healthcare Research and Quality, CBO assumes that nearly a million elderly individuals from families eligible to receive assistance under this provision are admitted into nursing home facilities each year. About one in six of these individuals require help with fewer than three activities of daily living (ADLs), which would make them suitable candidates for home care.

Results from a 1991 survey conducted by the American Association of Retired Persons indicate that 44 percent of families would prefer to care for frail or disabled family members at home. Assuming appropriation of the necessary amounts, CBO estimates that this provision would allow about 72,000 of these elderly individuals to avoid placement in an institutionalized setting each year at a cost of approximately $10,000 per grant. CBO notes that this reduction in nursing home placement could result in Medicaid savings if the beds not used by this population are not filled by previously unmet demand. (Any such change in Medicaid spending can not be attributed to H.R. 3995, however, because the grants that might lead to the savings are contingent upon appropriation action.)

In addition, based on data published by the National Alliance for Caregiving, CBO assumes that by 2007 roughly 10 percent of the 1.4 million low-income households that are involved in caregiving for frail elderly relatives requiring some help (individuals with one or two ADLs) also would receive funding through this provision. This estimate is highly uncertain because the legislative language would provide little guidance to HUD on how to limit eligibility. If HUD were to target funding to families with frail relatives most likely to be admitted to nursing homes, participation would be lower than the CBO estimate. However, given the lack of predictability of nursing home admissions, the regulations might become less restrictive than CBO assumes. In total, CBO estimates that section 106 would authorize the appropriation of about $7 billion over the 2003-2007 period, with estimated outlays of about $4 billion over that period.

Down-Payment Assistance Initiative. Section 108 would authorize the appropriation of such sums as may be necessary through 2004 to be used for down-payment assistance toward the purchase of single-family housing by low-income first-time homebuyers. Based on information from HUD, CBO assumes that the program would provide down-payment assistance to about 28,000 families each year. The average amount of down-payment assistance is assumed to be comparable with those currently provided through the HOME program or approximately $7,200. CBO estimates that implementing section 108 would cost $404 million over the 2003-2007 period, assuming the appropriation of the necessary amounts.

Homeownership for Municipal Employees. Section 109 would allow HOME funds to be used for homeownership assistance for public safety employees and teachers whose income does not exceed 115 percent of median income (this may be increased by HUD to 150 percent of median income if certain conditions are met). CBO estimates that demand for such assistance is somewhat limited because of the already high homeownership rate for this population (almost 10 percentage points higher than the national average) and competition from programs that provide similar assistance on both the federal and local level. CBO assumes that demand would be similar to HUD's Officer/Teacher Next Door program which serves approximately 2,000 buyers each year. The average grant amount is assumed to be about $7,200, which is similar to the average down-payment assistance currently provided through the HOME program. CBO estimates that implementing section 109 would require the appropriation of $75 million over the 2003-2007 period, increasing outlays by $55 million over the same period.

Title II: FHA Mortgage Insurance

CBO estimates that implementing title II would have a net cost of $33 million in 2003 and $30 million over the 2003-2007 period.

Loss Mitigation Demonstration for Hospitals. Section 204 would require the Federal Housing Administration (FHA) to carryout a demonstration program that would provide various types of mortgage assistance for not more than three hospitals with existing FHA-insured loans. The mortgage assistance could include the payment of a portion of outstanding debt, as well as payment for the repairs and rehabilitation required for the conversion of the hospitals to facilities providing health care and housing to the elderly. Subject to the availability of appropriations, such assistance would be provided as a means to assist financially troubled hospitals, and it would be limited to 30 percent of a hospital's unpaid mortgage balance. (According to FHA, the average unpaid mortgage balance per hospital loan is $60 million.) Based on information from FHA, CBO assumes that the demonstration would include three hospitals, that the maximum amount of assistance per hospital (i.e., 30 percent of the unpaid balance on a loan) would be provided, and that there would be little likelihood that any assistance provided would be repaid by the borrower. As such, CBO estimates that an appropriation of $54 million in 2003 would be required to support the demonstration program.

Simplification of Down Payment. Section 221 would permanently change the process FHA uses to determine the amount of a down payment that is necessary for mortgages on the single-family homes that it insures. Under current law, the down payment is calculated using a formula established in a 1996 pilot program. Under this formula, the maximum mortgage amount that FHA could insure would be determined as a fixed percentage of the home value. Authority to use this formula is scheduled to terminate on December 31, 2002, but section 221would make its use permanent.

Based on information from FHA, CBO estimates that continuing the use of the current down-payment formula would slightly increase the cost of guaranteeing FHA loans because it would lead to a small increase in the loan-to-value (LTV) ratios of about 15 percent of the loans guaranteed each year after 2002. The LTV ratio indicates how much equity a borrower initially has in the home, and serves as a good predictor of the likelihood of default. On average, borrowers with less equity (that is, higher LTV ratios) have higher default rates than borrowers with more equity. We estimate that this provision would increase the cost of guaranteeing some loans, resulting in a cost of $6 million in 2003 and $40 million over the 2003-2007 period. The estimated changes in FHA's loan subsidy costs—which are treated as discretionary spending—would be recorded in each year as new loans are disbursed.

Reduced Down-Payment Requirements. Section 222 would reduce the down-payment requirements for federally insured mortgages for teachers and public safety officers. Enacting this provision could enable certain teachers and public safety officers to purchase homes within their work regions with an FHA guarantee, by permitting a down payment as low as 1 percent of the mortgage amount instead of the 3 percent minimum down payment that is currently required. In addition, for each year that the loan is held and the borrower continues to work in the designated school district or public safety jurisdiction, FHA would defer 20 percent of the up-front cost of obtaining the loan. Normally, FHA charges a fee of 1.5 percent of the loan amount as the up-front cost of obtaining an FHA loan guarantee.

The budgetary impact of this new loan program would depend on how many households would use this provision to help them become homeowners and how long these homeowners would remain in their homes. Based on information from associations, private investment firms, banks, FHA, and industry experts, CBO expects that about 10,000 loans (with a face value of about $1 billion) would be guaranteed after the program is fully implemented in 2004. CBO expects that demand for this program would grow to almost 20,000 loans by 2007. CBO expects that this new program would be profitable (and thus generate negative subsidies), though not as profitable as the current single-family program where fees are not waived or reduced and default rates are slightly lower. We estimate that this new program would have a subsidy rate of about negative 0.75 percent, compared to a subsidy rate of negative 2.53 percent for FHA's single-family program in 2003 and negative 2.4 percent in subsequent years. CBO estimates that implementing the program would result in additional offsetting collections of $2 million in 2003 and $41 million over the 2003-2007 period.

In addition, because the majority of FHA-insured loans are eventually included in the Government National Mortgage Association (GNMA) Mortgage-Backed Securities (MBS) program, CBO estimates that implementing this provision would result in additional collections to GNMA of $1 million in 2003 and $23 million over the 2003-2007 period.

Title III: Supportive Housing for Elderly and Disabled Families

CBO estimates that implementing title III would cost $418 million over the 2003-2007 period, assuming the appropriation of the necessary amounts.

Authorization of Appropriations for Grants for Repairs to Federally Assisted Housing for the Elderly. Section 301 would authorize the appropriation of such sums as may be necessary through 2004 to be used for grants for substantial capital repairs for elderly multifamily housing. Based on information provided by HUD and industry officials, CBO assumes that funding for approximately 27,000 units per year would be provided in 2003 and 2004 at a cost of about $7,500 per unit. Thus, CBO estimates that implementing this section would require the appropriation of $404 million over the next two years, with outlays of $351 million over the 2003-2007 period.

Service Coordinators for Supportive Housing for Persons with Disabilities. Section 302 would add Section 811 Supportive Housing for the Disabled to the list of federally assisted housing programs that are eligible to receive grants to provide service coordinators. Service coordinators assist residents in obtaining needed supportive services from community agencies. In fiscal year 2002, 6.4 percent of the total allocation for the Section 202 elderly housing program was earmarked for service coordinators. Assuming a similar ratio, CBO estimates that section 302 of H.R. 3995 would authorize $82 million for the 2003-2007 period, with outlays of $60 million over that period.

Demonstration Program for Elderly Housing for Intergenerational Families. Section 303 would require HUD to reserve from future appropriations for Section 202 elderly housing amounts necessary to fund a demonstration program to determine the feasibility of providing intergenerational dwelling units for households headed by an elderly person. The bill would require HUD to fund between two and four projects during the demonstration period of 2003-2006.

In 1998, a similar program in Massachusetts developed a 26-unit intergenerational project at a cost of approximately $4 million. Assuming a comparable cost per project after adjustments for inflation and the regional cost of housing, CBO estimates that a four-project demonstration program would require an appropriation of $13 million over the 2003-2007 period with resulting outlays of $7 million over the same period.

Title IV: Section 8 Rental Housing Assistance Program

CBO estimates that implementing title IV would cost $1.6 billion over the 2003-2007 period, assuming appropriation of the necessary amounts.

Housing Voucher Demonstration. Section 401 would authorize the appropriation of the amount necessary to provide a total of 5,000 incremental project-based vouchers for fiscal years 2003 and 2004. CBO assumes that these vouchers would be used in conjunction with the affordable housing production and preservation funding authorized in section 101 and that renewals would begin in the year following initial occupancy. Assuming an average project-based voucher cost of $5,300, CBO estimates that the issuance and renewal of these vouchers would require an appropriation of $38 million over the 2003-2007 period, with outlays of $23 million over the same period.

Flexibility to Assist Hard-to-House Families. Section 402 would allow public housing authorities (PHAs) to use up to 2 percent of amounts allocated to the agency each year for purposes that directly support the agency's housing choice voucher program (the program that provides tenant-based vouchers to low income-families). These funds could be used for housing counseling programs, down-payment assistance, rental security deposits, and other activities that assist eligible families in obtaining suitable dwelling units. Currently, many PHAs are not able to utilize their full allotments each year because some tenant-based vouchers cannot be placed. Assuming the appropriation of the necessary amounts; CBO estimates that this authority would cost $1 billion over the 2003-2007 period.

PHA Administrative Fees. Section 404 would authorize the Secretary of HUD to pay incentive fees to public housing agencies that succeed in achieving high or substantially improved performances on specified program requirements. Based on information provided by HUD, CBO assumes that one-third of all units are administered by public housing authorities that have been rated as "high performers" under the Section 8 Management Assessment Program and, therefore, would be likely recipients of the incentive fees. Assuming an administrative fee bonus of 3 percent, CBO estimates that this provision would require the appropriation of $63 million over the 2003-2007 period, with outlays of $60 million over that period.

Extension of Project-Based Section 8 Contract Renewals. Section 408 would amend the Multifamily Assisted Housing Reform and Affordability Act of 1997 to allow rents for properties subsidized through the moderate rehabilitation program to be renewed at market rates. Under current law, rents are renewed at the lesser of adjusted existing rents, fair market rents, or market rents.

Based on data provided by HUD, state housing agencies, and public housing agencies, CBO estimates that almost half of the 52,000 moderate rehabilitation units subsidized by HUD currently have contract rents that are below market for comparable units. Average monthly rents for such units are estimated to be approximately $50 below the market rate. CBO estimates that allowing contract rents on these units to be marked up to market upon contract expiration would require the appropriation of $61 million over the 2003-2007 period, with outlays of $54 million over that period.

Project-Based Voucher Modifications. Section 411 would modify the rules that govern attaching housing choice voucher subsidies to structures rather than to individuals. Currently, no more than 25 percent of the dwelling units in most buildings may be assisted in this manner. The modifications in this section would expand the exceptions to this rule to include properties of one to four units and buildings outside of qualified census tracts with five to 25 units. Assuming the availability of appropriations, CBO estimates that these modifications, when used in conjunction with the production funding authorized in section 101, would gradually increase voucher utilization by 20,000 units. This increased utilization would cost $54 million over the 2003-2007 period.

Expanded Use of Enhanced Vouchers. Section 412 would allow families who are eligible for enhanced voucher assistance, but live in units that are unavailable for continued rental due to conversion to condominium, cooperative, or commercial use, to transfer the enhanced voucher to another unit within the same or contiguous zip code. The enhanced vouchers provided to these families would have payment standards of up to 150 percent of the applicable fair market rent. Based on information from HUD and industry officials, CBO estimates that such conversions are relatively rare, representing approximately 2 percent of the 28,000 opt-out units each year. This expanded use of enhanced vouchers would add, on average, about 36 percent to the cost of the tenant protection vouchers issued as a result. CBO estimates that this provision would require the appropriation of $12 million over the 2003-2007 period, with outlays of $10 million over that period.

Demonstration Program for Rental Assistance for Grandparent-Headed or Relative-Headed Families. Section 413 would direct HUD to reserve amounts made available for tenant-based voucher assistance to be used for a demonstration program to determine the feasibility of providing rental assistance to families headed by a grandparent or relative. The section would require the demonstration to be conducted by not less than two and not more than four public housing agencies. CBO assumes that HUD would choose four housing authorities of various sizes for this demonstration and that it could be conducted with 1,000 vouchers (500 vouchers for a large PHA, 225 vouchers for two mid-sized PHAs, and 50 vouchers for a small PHA). Assuming that renewals would begin the year following initial occupancy, the issuance and renewal of these vouchers would require the appropriation of $21 million over the 2003-2007 period, resulting in outlays of $17 million over that period.

Increased Payment Standard. Section 415 would allow PHAs to use funds appropriated for fiscal year 2004 and future years to establish a payment standard of up to 120 percent of the Fair Market Rent (FMR) for units assisted by tenant-based vouchers without the approval of HUD. A PHA would be able to establish a payment standard at this level if it has had a payment standard of at least 110 percent of the FMR for the previous six months and has a voucher success rate (the proportion of families that are issued a voucher that succeed in leasing a unit) of not more than 80 percent. Prior to increasing the payment standard, PHAs must include the reasons for the increase in their annual plan.

Based on information provided by HUD, CBO estimates that approximately 12 percent of units are managed by PHAs that have set payment standards at or above 110 percent of the FMR and that an additional 13 percent would have payment standards at that level within one year after enactment. In addition, CBO estimates that 70 percent of units are managed by PHAs that meet the success rate requirement. CBO estimates that allowing PHAs to increase payment standards would require the appropriation of $466 million over the 2003-2007 period, with outlays of $367 million over that period.

Title V: Public Housing

CBO estimates that implementing title V would cost $562 million over the 2003-2007 period, assuming appropriation of the necessary amounts.

Third-Party Public Housing Assessment System. Section 503 would give HUD the authority to develop a prototype of an alternative evaluation system for assessing the overall performance of housing authorities. The bill would require HUD to enter into a contract with an outside entity to develop the prototype assessment system. CBO estimates that this provision would cost approximately $1 million in fiscal year 2003.

Affordable Assisted Living Facilities Demonstration Program. Section 504 would authorize such sums as may be necessary through 2004 to carry out a program to demonstrate the effectiveness of making grants to public housing agencies to convert elderly dwelling units to assisted living facilities. These facilities would be designed for elderly tenants who can live independently but require supportive services. The section would authorize appropriations for the conversion of three eligible properties. A similar conversion program for elderly housing assisted under section 202 of the Housing Act of 1959 has required an average of $1.8 million per project in 2000 and 2001. Assuming a similar cost per project, CBO estimates that implementing section 504 would require the appropriation of $6 million over the next two years, with outlays of $3 million over the 2003-2007 period.

HOPE VI Authorization of Appropriations. Section 522 would authorize the appropriation of such sums as necessary for the HOPE VI program through 2004. In 2002, $574 million was appropriated for this program. CBO estimates that implementing this section would cost $531 million through 2007, assuming appropriation of the necessary amounts.

HOPE VI Grants for Assisting Affordable Housing Through Main Street Projects. Section 524 would authorize HUD to provide up to 5 percent of the amount appropriated for the HOPE VI program for use by smaller communities (population below 30,000) for affordable housing activities in conjunction with the revitalization of a traditional commercial area. Assuming the appropriation of the necessary amounts, CBO estimates that implementing section 524 would cost $27 million through 2007.

Title VI: Homeless Housing Programs

CBO estimates that implementing title VI would cost about $2.5 billion over the 2003-2007 period, assuming inflation-adjusted appropriations.

Homeless Assistance Programs. Title VI would extend the authorizations for the following programs through 2004 for such sums as may be necessary:

- Interagency Council on the Homeless (estimated outlays of $2 million over the 2003-2007 period);

- Federal Emergency Management Agency food and shelter program (estimated outlays of $283 million over the 2003-2007 period);

- Emergency shelter grants program (estimated outlays of $188 million over the 2003-2007 period);

- Supportive housing program (estimated outlays of $950 million over the 2003-2007 period);

- Section 8 assistance for single room occupancy dwellings (estimated outlays of $19 million over the 2003-2007 period); and

- Shelter plus care (estimated outlays of $299 million over the 2003-2007 period).

Housing for Domestic Violence and Sexual Assault Victims. Section 607 would authorize the appropriation of such sums as necessary for fiscal years 2003 through 2007 to carry out a program that provides grants to qualified organizations for providing housing assistance for the victims of domestic violence or sexual assault. Survey data provided by the National Coalition Against Domestic Violence indicate that approximately half of the 83,000 families that were either served by or turned away from domestic violence shelters in 2000 are in need of transitional housing services. Based on information provided by HUD, CBO assumes that the average cost to assist each family would be approximately $6,000 per year, 25 percent of which would be provided by the qualified organizations receiving assistance. CBO estimates that this section would authorize the appropriation of $1 billion over the 2003-2007 period, and result in outlays of $759 million over that period.

Title VII: Reauthorization of Native American Housing and Self-Determination Act

Section 701 would authorize the appropriation of such sums as necessary through 2004 for Native American Housing Block Grants, title VI loan guarantees, and training and technical assistance. For 2002, $649 million was appropriated for these purposes. Assuming continued funding at that level and adjusting for inflation, CBO estimates that implementing this provision would cost $1.2 billion over the 2003-2007 period.

Title IX: Other Housing Programs

CBO estimates that implementing title IX would cost $1.5 billion over the 2003-2007 period, assuming appropriation of the necessary amounts.

GNMA Guarantee Fee. GNMA is responsible for guaranteeing securities backed by pools of mortgages insured by the federal government. (These securities are known as mortgage-backed securities or MBS). For a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back their securities. Under current law, GNMA charges lenders or issuers an annual fee of 6 cents for every $100 (6 basis points) of guaranteed mortgage-backed securities backed by single-family loans. Furthermore, a fee increase to 9 basis points is scheduled to take effect on October 1, 2004. Section 901 would repeal that fee increase. CBO estimates that eliminating the fee increase would increase the subsidy rate associated with the single-family MBS program and increase the demand for the program.

Based on information from GNMA, CBO estimates that the collection of lower fees would reduce the subsidy for the single-family MBS program from negative 0.56 percent to negative 0.37 percent. (As with the FHA single-family program, GNMA guarantee fees for the mortgage-backed securities more than offset the costs of expected defaults, resulting in net collections from the MBS program.) CBO expects that by extending the lower fee of 6 basis points, however, GNMA would remain more competitive with other MBS programs and continue to guarantee more than $100 billion worth of mortgage-backed securities, as it does under the current fee structure. Thus, while repealing the fee increase would result in a less profitable program, this loss would be partially offset by additional receipts stemming from an expected increase in demand for GNMA services of about 25 percent. On balance, CBO estimates that implementing this provision would cost $56 million in 2005 and $173 million over the 2005-2007 period.

Assistance for Self-Help Housing Providers. Section 903 would authorize the appropriation of $22 million in 2003 and $23 million in 2004 for HUD to issue grants to facilitate self-help housing homeownership opportunities. Assuming the appropriation of the necessary amounts, CBO estimates that implementing this provision would cost $43 million over the 2003-2007 period.

Housing Opportunities for Persons with AIDS. Section 904 would authorize the appropriation of such sums as necessary through 2004 for the Housing Opportunities for Persons with Aids program. For 2002, $277 million was appropriated for this program. Assuming inflation-adjusted appropriations, CBO estimates that the bill would authorize the appropriation of $570 million for the 2003-2004 period, with outlays of $535 million over the 2003-2007 period.

Use of CDBG amounts for construction of tornado-safe shelter for manufactured housing parks. Section 905 would authorize HUD to make block grants to communities for the construction of storm-safe shelters for manufactured housing parks. Based on information from HUD, CBO estimates that implementing this section would cost $95 million for land acquisition, construction, and the maintenance cost of such shelters over the 2003-2007 period, assuming the appropriation of the necessary amounts.

Correction of Inequities in the Second Round of Empowerment Zones. Section 909 would authorize the appropriation of such sums as are necessary to make grants to the 15 areas designated in the second round of urban empowerment zones. Based on information from HUD and the amount of past appropriations for the first round of urban empowerment zones, CBO estimates that each second round zone would receive $100 million for various economic development projects. The empowerment zone designation ends in 2009. The 15 empowerment zones have received $330 million so far, and CBO estimates that this provision would cost $504 million over the 2003-2007 period.

Assistance for Nonprofit Purchases Preserving Affordable Housing. Section 911 would authorize the appropriation of such sums as necessary to make grants to nonprofit organizations with a regional or national focus that work to acquire and preserve affordable housing. The grants would be intended to support the nonprofits' operating, working capital, and organizational expenses. Based on information from industry representatives, CBO estimates that there are approximately 15 national and 60 regional nonprofit purchasers of affordable housing and that average annual operating expenses for these organizations range from $500,000 to $2 million. We estimate that HUD would provide these agencies with grants equal to about 25 percent of their annual operating expenses. CBO estimates that implementing this section would cost $57 million over the 2003-2007 period.

Demonstration Program for Affordable Housing Database. Section 916 would give HUD the authority to conduct a demonstration program to develop an electronic database that provides agencies, municipalities, and the general public access to information about affordable housing. The provision would limit the demonstration to not more than three sites. CBO estimates that carrying out this provision would cost $2 million over the 2003-2004 period.

Tenant Protection and Removal of Prepayment Restrictions for Section 515 Properties. Section 918 would remove all restrictions on the prepayment of certain Rural Housing Service (RHS) loans and would provide, subject to the availability of appropriations, enhanced vouchers to each low-income family who would be displaced by the prepayment of these loans.

Beginning in the 1960s, the RHS made direct loans, generally for about 40 years, to builders for the construction of multifamily rental housing units in rural areas. Many of these properties (known as section 515 properties) receive project-based rental assistance, which is a type of housing subsidy that is tied to the unit, and thus the household can only benefit from the subsidy while living in the subsidized unit. Under current law, section 515 loans made before December 14, 1989, may not be prepaid after 20 years from the date of the loan unless certain conditions concerning the maintenance of the property are met.

Based on information from the General Accounting Office and RHS, CBO estimates that this section would allow for the prepayment of mortgages associated with about 4,000 section 515 projects over the next eight years. The budgetary impact of this provision would be twofold. First, CBO estimates that about 108,000 units would be eligible for enhanced vouchers and that the rents for these units would increase by approximately 45 percent. Over the 2003-2007 period, we estimate that the funding of such vouchers would cost about $477 million above the subsidy payments currently provided to the families that live in these properties.

Second, assuming appropriations language would specify the use of enhanced vouchers for this particular population, prepayments of section 515 properties would result in savings of about $102 million to the federal government in 2003 and $398 million over the 2003-2007 period. (The average original loan amount for the section 515 projects is $730,000.) Because the expected prepayments would change the cash flows associated with the section 515 loan program, this provision would be considered to be a modification of existing federal loans. The costs of a loan modification are estimated on a net present value basis in the year in which the modifications take place. CBO estimates that $398 million in savings from the more rapid repayment of the outstanding principal balance on about 4,000 section 515 loans would be recorded in the budget over the 2003-2007 period under this provision. Note, however, that those potential savings are contingent upon appropriation of the funds necessary to provide the additional enhanced use vouchers for section 515 properties (as estimated above). That is, the prepayments would not occur in the absence of such appropriations.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

HR. 3995 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. Any significant costs to state, local, or tribal governments would result from complying with conditions of federal aid.

PREVIOUS CBO ESTIMATE

On August 21,2002, CBO transmitted a cost estimate for H.R. 3995 as ordered reported by the House Committee on the Judiciary on July 23, 2002. That version of the bill included many provisions similar to those in this bill and had an estimated cost of about $12.6 billion over the next five years ($1.3 billion lower than the Financial Services Committee's version), assuming appropriation of the necessary amounts, as well as a $34 million increase in direct spending over the 2003-2008 period (in contrast to no direct spending for the version approved by the Financial Services Committee).

The major differences in this version of H.R. 3995 are:

- The creation of a matching grant provision for state and local affordable housing trust funds;

- Modifications to the HOME program including the creation of a down-payment assistance program and a homeownership program for municipal employees;

- The authorization of appropriations for grants to repair federally assisted housing for the elderly;

- Modifications to the rules governing Section 8 housing vouchers;

- The creation of a new transitional housing program for the victims of domestic violence and sexual assault;

- The removal of prepayment restrictions for Section 515 properties; and

- The establishment of various demonstration programs.

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